

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

BUSINESS ACTIVITY, REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The principal activities of the Group have been the continuing development of three-dimensional imaging technology. Further details can be found in the Chairman and Chief Executive review set out in pages 2 to 5. The Company acts as a holding company.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2003 show a loss of £788,299 (2002: £602,859). The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 6. The directors' interests, all of which were beneficial, in the shares of the Company at the year end were as follows:

	30 SEPTEMBER 2003 ORDINARY SHARES OF 1p EACH	30 SEPTEMBER 2002 ORDINARY SHARES OF 1p EACH
N J Tipple	-	-
N D Fox	2,270,835	2,270,835
S X Godber	-	-
I S S Johnson	-	-
I M Robertson	5,000	5,000
R J Gibbs	60,000	-
R Savage	2,000	2,000

The following existing options had been granted at the start of the year:

N J Tipple 100,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 20 September 2004.

S X Godber Under the Image Scan 1999 Approved Share Option Scheme, on 4 May 2000, 50,000 ordinary shares of 1p each at a price of 25p per share; and on 30 April 2001, 10,000 ordinary shares of 1p each at a price of 50p per share. In both cases the options are exercisable at any time after three years but no later than ten years from the date of grant.

I M Robertson 20,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 20 September 2004 and 45,455 ordinary shares of 1p each at a price of 55p per share exercisable at any time up to 22 January 2005. These lapsed on 23 June 2003 as a result of the director's resignation.

R Savage 25,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 1 August 2004. These lapsed on 23 June 2003 as a result of the director's resignation.

I S S Johnson 45,455 ordinary shares of 1p each at a price of 55p per share exercisable at any time up to 22 January 2005.

R J Gibbs 76,923 ordinary shares of 1p each at a price of 65p per share exercisable at any time up to 25 April 2005.

The following share options were granted during the year:

S X Godber Under the Image Scan Enterprise Management Incentives Share Option Plan, on 14 March 2003 20,000 ordinary shares of 1p each at a price of 51.5p per share. The options are exercisable at any time after three years but no later than ten years from the date of grant.

On 29 October 2003 R J Gibbs purchased 285,000 ordinary shares of 1p each at a price of 35p per share in Image Scan Holdings plc. There have been no other changes in directors' shareholdings since the year end. No directors exercised share options during the year.

The share price high and low during the year were 64.5p and 39p per share respectively. The closing mid-market price was 40p per share.



DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDINGS

At the date of this report the following substantial shareholdings have been notified to the Company:

	%	ORDINARY SHARES OF 1p EACH
Gresham House plc	10.44	2,018,964
3PC Investment Trust plc	8.33	1,610,394
AiM VCT 2 plc	8.33	1,610,394
Welsh Industrial Investment Trust plc	6.05	1,169,000
A P Stirling	4.51	871,666
Newinnhall Trust Limited	4.28	826,666
Gresham House No 1 Pension Scheme	4.01	775,000
Tilney Investment	3.70	715,000

3PC Investment Trust plc and AiM VCT 2 plc are under common ownership of ISIS Asset Management, together with ISIS AiM Growth, which holds 143,000 shares. This gives ISIS Asset Management an overall holding of 17.40%.

SHARE TRANSACTIONS

On 29 October 2003, the Company issued 3,085,427 ordinary shares of 1p each. Details of this issue is given in note 16 to the accounts.

RESEARCH AND DEVELOPMENT

The Group was focused in the year on research and development, with considerable technical staff effort applied to completing key product offerings ready for commercial launch in 2004. Costs of this in the year amounted to £150,211 (2002: £117,654).

FIXED ASSETS

The intangible assets as detailed in note 9 are included at a net book value of £178,310 (2002: £192,460). The directors believe the intellectual property rights are worth considerably in excess of this amount.

The movement in investments during the year is detailed in note 10 to the accounts.

PAYMENT POLICY

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 30 September 2003, trade creditors represented 88 days purchases (2002: 38 days).

DIRECTORS' REPORT (CONTINUED)

FINANCIAL INSTRUMENTS

The Group's financial instruments during the year comprised bank loans, overdraft and cash (or cash equivalents). The main purpose of these instruments is the financing of the Group's operations.

Following a review, the Board decided not to enter into any derivative transactions in the year to manage currency, interest rate or liquidity risk. Methods used by the Group to manage these risks are summarised below.

Interest rate risk

The Group finances its operations by a mixture of proceeds from new share capital and external borrowings. Bank borrowings are denominated in sterling and bear interest at floating rates.

Liquidity risk

The Group policy to manage liquidity risk is to ensure sufficient overdraft and loan facilities are in place.

Foreign currency risk

The Group makes minimal sales and purchases in foreign currency and therefore the foreign currency exchange risk is considered to be negligible.

DIRECTORS' STATEMENT OF RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The directors have acknowledged the latest guidance on going concern and, after making appropriate enquiries, have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

L J George
Company Secretary
15 December 2003